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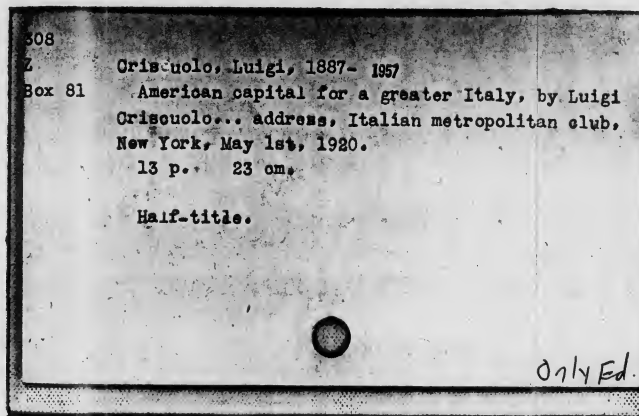
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# AMERICAN CAPITAL for A GREATER ITALY



By  
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AN ADDRESS  
ITALIAN METROPOLIS CLUB  
NEW YORK  
MAY 1st, 1920

8 June 1920 Dnw

## INTRODUCTORY NOTE

THOSE of us who first called the attention of American capitalists to the opportunities which Italy had to offer legitimate enterprises can only look upon the results of the past two years as extremely unfortunate from every point of view.

Those of us who love Italy for her splendid past, her contribution to civilization and the preservation of human liberties, who admire her for her heroic fight against Austrian oppression, cannot but feel that she has been forgotten by those who pretended to be her friends.

Those of us who want to see Italy recuperate and enjoy the just rewards for her many sacrifices will not begrudge her her legitimate aspirations in the Adriatic, including Fiume, when it is considered that Great Britain came out of the war the strongest nation in the world in armaments and territory.

Those of us who recently read Premier Nitti's scathing criticism of those occupied in the "dissemination of false news detrimental to Italy" can only regret that the Italy America Society, which had such a splendid beginning, did not become a potent factor in ameliorating Italian-American relations.

The remarks on the following pages are intended to be a serious, critical study of the financial relations between Italy and the United States and are written with the full understanding that enormous difficulties stood in the way of a more complete understanding between the two countries.

L. C.

New York, May 1, 1920.

DEDICATED TO  
HIS EXCELLENCY  
FRANCESCO SAVERIO NITTI  
PRIME MINISTER OF ITALY

WITH THE HOPE THAT THE ITALIAN PEOPLE  
WILL BE ABLE TO SURMOUNT THE COLOS-  
SAL ECONOMIC DIFFICULTIES WHICH  
CONFRONT THEM AT THIS CRITICAL  
PERIOD IN THEIR GLORIOUS HISTORY

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## AMERICAN CAPITAL *for* A GREATER ITALY

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I—*A Retrospect in American-Italian Financial Relations.*

IT is now eighteen months since I returned from Washington to New York, enthusiastic over the possibilities of obtaining vast amounts of American capital for the reconstruction of a *greater* Italy. I must say that I did not lack encouragement from the highest sources, for, in order to ascertain how American capitalists would attempt to finance Italy, I did not theorize, but made direct inquiries of some of the foremost financiers in this city.

They said: "Yes, we want to help Italy get on her feet, but her securities must be prepared so as to meet our demands."

I interviewed Mr. Charles E. Mitchell, President of the National City Company, which is the largest bond selling organization in the world; Mr. Alexander J. Hemphill, Chairman of the Board of the Guaranty Trust Company, and Mr. Emerson McMillin, banker and public utility financier. I also quoted at great length from statements published just before that time by Mr. Samuel McRoberts, of the National City Bank, and Mr. Thomas W. Lamont, of the firm of J. P. Morgan & Co. My studies resulted in the article, "American Capital for a Greater Italy," which appeared in *Il Carroccio* in January of last year. As many of my hearers may not have read the article mentioned, it will be necessary to make some quotations from those interviews.

It was the consensus of opinion that *there would be no doubt* about American capital being available for Italian enterprises, and for Government or municipal uses. However, the placement of funds was to depend upon the manner in which obligations would be issued.

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The principle of throwing off the chains of splendid isolation was recognized by all of the financiers quoted. All of them realized that we no longer lived in the times of Washington, and that we had a mission to fulfill—that of rehabilitating the war-scarred nations of Europe.

Mr. Thomas W. Lamont, speaking before the Investment Bankers' Association had made some very significant remarks. They were important because he spoke as a member of the first banking firm in the country, a firm which—right or wrong—takes a position in finance and maintains that position. One thing can be said of the house of Morgan, and that is that it does not go back on a client—individual, corporation or nation. The excellent manner in which British and French finances have been taken care of in the United States is an attestation of this fact. Would that Italy had such a sponsor!

Mr. Lamont gave out some interesting figures; he was one of the first to point out that our Allies could not pay back for a long time the funds borrowed from us. He said that the interest on the debt, amounting to \$500,000,000 per annum, plus the balance of trade of \$1,000,000,000 per annum, due to us, would continue to accrue for three years without being paid.

Will his prediction be borne out?

We have seen one year pass by without any material payments made on account of those debts. The chances are that *more* than three years will pass before most countries will begin to pay even the interest on their debts to us as well as take care of the heavy balance of trade which must, obviously, continue to work against them.

And Mr. Lamont said, as other far-seeing bankers felt, as follows: "How is such an enormous annual indebtedness to America to be settled? \* \* \* There is no possible way except through the continued and heavy investment by America in foreign obligations, both public and private. Such obligations must, it goes without saying, be sound. They will be sound. They can be made to be sound, safe and conservative. But there is no dodging the issue that if the world is to move on; if its peoples are to be housed and fed and clothed; if rich America is to do her full share in rendering these services, then we shall have to lend to, and in, foreign countries on a scale that, five years ago, we had never conceived possible."

I am sure that Mr. Lamont's mind went back to the Fall of 1915,

when the Anglo-French loan of \$500,000,000 was talked of with wonderment as the greatest financial operation in our generation. I remember clearly with what concern bankers then talked of the purchasing power, from the investment standpoint, of the American people. Little was it dreamed of then, that we would be asked to subscribe to five great American loans aggregating over twenty-five billions in a period of two years!

Mr. Lamont continued his statement by saying: "Never before did a country have such an opportunity, as ours has, to render a great service to mankind. I am not minimizing the importance of our domestic conditions and opportunities. They are of the first magnitude and it is fair to say that charity begins at home, that we must look first to the straightening out of our own problems, and to our own reconstruction work. \* \* \* Upon you (the investment bankers) more than anyone else, it seems to me, is laid the imperative duty of studying these conditions in foreign countries that I describe, of educating yourselves to the fact that America cannot stand aloof, must play her full part as a great world power; and especially at this critical juncture must take a chief share in the rebuilding of a wreck-strewn world."

There was the will, that is sure.

*Was there a way?*

Mr. Lamont spent some months in Europe as a very important member of President Wilson's entourage as financial advisor. He was the practical financier, while there were many theoretical financiers, economists, statisticians, college professors, etc., along with the party. While in Paris, Mr. Lamont evinced so much interest in Italian finance that he addressed a group of Italian bankers and apparently showed great interest in the future financial relations between the United States and Italy. It was quite natural that he should. His firm controls the Guaranty Trust Company of New York, which is allied with the Banca Italiana di Sconto; then, as one of the founders, as well as the treasurer, of the Italy America Society, it is natural that he should have shown that much interest.

But Mr. Lamont was not to see fulfilled his desire for America to finance her late Allies. There is no question but that he was absolutely sincere in what he had said and that he meant to help

Italy as well as France, Great Britain and Belgium. Not merely because of sentiment, but as a pretty good business proposition, believe me.

The fact is that bankers wanted to go into Europe for all they were worth. They knew that they could get in on the ground floor anyway, and, besides, the rates of exchange were so much in favor of America that the mere fact of a great financial plan being announced for the reconstruction of Europe would have caused exchange to improve, with consequently enormous profit to any syndicate organized for the purpose.

But they reckoned without the League of Nations.

\* \* \*

*And what about Italy?*

Were American bankers really making a study of Italian economic conditions? They were. And be it said here that with all of the talk of American capital being required in Italy, those of us who were utilizing their valuable time trying to interest American financiers in Italian enterprises were sorely handicapped by the very persons who should have done most to help us.

Mr. Charles E. Mitchell told me last year that in order to make Italian securities salable in the United States they should be surrounded with the same safeguards that are placed around our own railroad and industrial securities. "To make Italian securities readily salable in the United States and more easily understood by investors in this country, they should be issued in Dollar form with perhaps the privilege of accepting payment in Italy, in Lire, at the option of the holder."

The question of issuing bonds in Dollar form came up in reply to my query as to which form was believed to be more attractive—Dollars or Lire.

It is significant that both Mr. Mitchell and Mr. Hemphill believed that private initiative should have been substituted for governmental agency as soon as possible.

The one feature which predominated was how little American bankers really knew about the Italy of to-day! They knew the Italy of Dante, of Raphael, of Michaelangelo, of Galileo, of Columbus; they knew the Italy of the Sforza, the Medici, the Visconti, the

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Colonna and the Orsini; they knew of its sunny skies, its beautiful palaces with their wonderful paintings. But they did not know the Italy of *Marconi*, of *Ansaldo*, of *Caproni*.

And, now for what has *not* been done. "If American capital is seriously needed in Italy \* \* \* then the Italian banking interests should begin a campaign of education here, setting forth before American investors Italy's achievements in the financial and industrial field in the past decade. This can be done by publicity in the newspapers and periodicals, as well as by circulation of well-written pamphlets. The campaign should be conducted by specialists who know American markets, American investors and American financial methods. \* \* \* It is the American investor who has to be satisfied that the investment offered him is sound and attractive, for if it is not there are hundreds of American securities which are." This statement I made in the pages of *Il Carroccio* a year ago.

Where were the Italian banking interests when this statement was made? How do they stand, now that I set forth the problem and the solution at one time? Had they heeded my gratuitous advice they would have saved the Italian Government and people many hundreds of millions of Lire!

*Who is to blame?*

Those men who could not see that their country had a problem, a grave financial problem; that if they had Americanized their finance, just as Agostino de Biasi wished them to Americanize the problem of the Adriatic, they would have had no problem yet to solve. And these bankers did not lift one finger, although urging for American capital, to make Italy known to America.

I must blame those men who neglected to portray a strong Italy, emerging victoriously from the ravages of a terrible war. I blame those representatives of Italy who several years ago, for their own selfish, jealous aims, did not encourage those few of us who knew Italy's economic problem, who were willing to give her our labor *gratis*, if necessary, that she might gain a hearing here.

Must those higher up be accused? I might, but I shall not. It might be unjust. It probably would be unjust. So, considering the state of things in Italy just after the armistice, I must feel charitable, and now express a hope that the future will make amends for the mistakes of the past.

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## II—The Beginnings of the Italian Government Dollar Loan.

When treating on the listing of the Italian Government internal five per cent bonds of 1918 on the New York Curb, writing in *Il Carroccio*, I said in part: "It is not desirable that Italian bonds become the objects of arbitrary speculation. To permit this, when the Italian Government will desire to place in this market its bonds or treasury notes it will find its market spoiled, with evident damage. Instead, today, this market is well prepared to receive them." That was in February, 1919.

And again in the same article: "With the end of the war and all nations entering into their own economic spheres, it is up to the Italian Treasury to see to it that Italian credit be maintained in foreign countries in the same manner as is maintained the name of Italy, regenerated and strengthened by the war!"

In June of last year the Swedish Government placed an issue of \$25,000,000 twenty-year six per cent bonds at 99½, yielding over six per cent, while in July the Swiss Government placed an issue of \$30,000,000 ten-year 5½ per cent bonds at 96¼, yielding six per cent. In August came the issue of \$15,000,000 City of Copenhagen 5½ per cent bonds at 93½, yielding six per cent; later, in the Fall, the \$45,000,000 French Municipalities fifteen-year 6 per cent bonds at 92½, yielding 6.80 per cent and \$250,000,000 British Government 5½ per cent bonds, the 1922 maturity on approximately a 6.25 per cent basis and the 1929 issue on a 6.00 per cent basis.

On this showing, I figured last November that Italian credit, after so much had been said about Italy's resources aside from her wonderful contribution to the victory, could stand a loan here of about a hundred million dollars. I pointed out that the Italo-American element here had purchased over half a billion in the various Liberty Bond issues and certainly could be counted upon to purchase a goodly amount of Italian Government bonds. My suggestion planned for an issue of 6½ per cents containing the privilege to obtain payment in Lire at the rate of from 7.00 to 8.00 Lire per Dollar; at that time, Lire were selling at 12.00, so there was some chance for an attractive speculation.

In the latter part of January, a tentative announcement was made of the first series of \$25,000,000, out of a total of \$100,000,000 authorized, of Italian Government five-year 6½ per cent bonds at a price of 97½ and interest. The bonds contained an option whereby

the holder could obtain payment in Rome in Lire at the rate of 7.00 Lire per Dollar, although they were selling here at about 15.50. This was a long jump from 7.00, so the exchange option was really no longer a great attraction. However, the real work for the loan did not commence until February and the first advertisements in the Italian press were those of Merrill, Lynch & Company, while the official advertisement appeared a week or so later.

The bond selling syndicate was headed by the Banca d'Italia, other members being the Banco di Napoli, Banca Italiana di Sconto, Credito Italiano, Banca Commerciale Italiana and Kidder Peabody & Co., besides many associates including the East River National Bank, Merrill, Lynch & Co., Federal Securities Corporation, Italian Discount & Trust Co., Lincoln Trust Co., Lionello Perera & Co., Bank of Italy, National Shawmut Bank of Boston, etc.

The average banker asked himself why it was that one of the primary banking houses of the country, such as J. P. Morgan & Co. or Kuhn, Loeb & Co., did not underwrite the issue, particularly as it had been an open secret that negotiations had been started with each of those firms during the latter part of last year. Reports even had it that one of those firms had offered to underwrite \$50,000,000 of the total issue if the Italian banks would underwrite the other half.

### Wherein was the difficulty?

It is, of course, a fixed rule in Wall Street that serious business men who want to finance enterprises try bankers *one at a time*. In other words they go to one banker with a proposition and do not approach another until it has been declined by the first. They do not shop all over the Street. Because, as a general consequence most very large and meritorious propositions ultimately find their way to the "Corner of Wall and Broad" or to the "Corner of William and Pine."

There is still another feature. Wall Street is patriotic enough, to a certain point. Every house in the Street practically suspended business during the various American Liberty Loan drives, and sold practically only Liberty Bonds, *with no profit. They went the limit.*

But with the war over, it is another story. There are overhead expenses to be paid. And the public wants high interest return to help meet the higher cost of living. So that any investment, no matter how well secured, must meet competition. When one sees French Cities and Swiss Government bonds selling on better than a 7.25 per



cent basis, he cannot expect any financial house to take a risk of one hundred million dollars in Italian Government bonds on a 7.15 per cent basis.

It is quite generally known that the issue of \$250,000,000 British Government  $5\frac{1}{2}$  per cents was by no means all sold to the public. At this date, the issue of \$45,000,000 French Cities 6 per cents are said to be about half sold and the syndicate had to reduce the price from  $92\frac{1}{2}$  to 90; while in the open market they are selling at about 89 and are said to have been sold privately, in large blocks, at lower than that.

\* \* \*

During 1919, the American investment markets were flooded with millions of dollars of new issues of industrial securities based on consolidations, oil enterprises, etc., good, bad or indifferent. At this time the American investment market is not so bulging with cash as some people might infer and it has been very difficult to sell securities except either when the yield was high and the security exceptional, or where very attractive speculative features were offered.

Then we had the ban of the Federal Reserve Board on speculation in general and the widespread increase in money rates, with the obvious advance in rates at which funds could be obtained for new financing of any nature. Whether the policy of the Federal Reserve Board was dictated from the White House as a warning to European nations, or not, I am not in a position to say; although I have heard the theory advanced. In other words, something of an economic boycott to force the League of Nations down Europe's throat. Poor League of Nations! Look at the French invasion of Germany!

America has not been in the best of financial condition. As a matter of fact there has been unrest in financial circles. We have had a sort of a panic. The status in a few words, a clear judgment of the situation, was peculiarly advanced by Comm. Domenico Gidoni, who said: "If it were not for the fact that European nations were so poor in comparison with the United States, that country could be said to be passing through a financial crisis." And that is true, for we have had our strikes, our unrest, our financial disturbances.

Italy's financial policy suffered an unfortunate set-back when she did not employ a great banking house to act as her fiscal agent in the United States as soon as she entered the war. Perhaps her statesmen did not have the foresight to realize that the war would be long and

that America would be the last to come in the struggle, or perhaps those statesmen were ill-informed. Here is where England and France used foresight. For when they needed funds, they went to their appointed purchasing agent, J. P. Morgan & Co., and their requirements were not denied them.

What was wrong with Italy that she did not see into matters clearly? Well, in such matters, reciprocity plays a great part. So when Italy made her own purchases here, she lost the opportunity of making a strong financial connection which would have been the means of obtaining for her an absolute commitment for the \$100,000,000 issue and would have been a potent factor in keeping Lire exchange at about the level that Francs were selling, or even on a better basis, instead of 22.00, as at this time. It is pitiable!

Of course, some people will wonder why the Guaranty Trust Company, considering its alliance with the Banca Italiana di Sconto, did not use every pressure to point out the situation with respect to the investment market and insist upon having the bonds made attractive, as to price and conditions, to American investors. Surely, knowing those connections to be so close to the Italian Government at Rome, it has been a source of wonderment to me as to why the Guaranty Trust Company did not underwrite *at least* the first series of \$25,000,000 of the Dollar Loan.

The Belgian Government issue of \$25,000,000 6s, which were offered by a syndicate of important banking firms were sold in a day.

True, the bonds contained a provision under which the holder might make a profit of \$561 in exchange, as compared with \$351 on the Italian  $6\frac{1}{2}$ s, but the provision was for Belgian Francs at 11.00 while the Italian bonds provide a call on Italian Lire at maturity at the rate of 7.00. However, if the Morgans had underwritten the Italian issue, it is certain that they would have insisted upon the bonds meeting market conditions *in every respect*.

But some things are unexplainable.

\* \* \*

This address is not intended to be one of those "I told you so" propositions. It is an attempt to state what has happened and why it happened. It may serve as a means of bringing the attention of the proper authorities in the Italian Government to the fact that in the future its financial problems should be discussed seriously *from the American point of view*.

Bonds cannot be sold by stereotyped advertising alone. There must also be the personal appeal to one's sentiment or patriotism in these times. But, even then, advertising is only one cog in the wheel of a security selling campaign in Wall Street. First there is conducted a campaign of general publicity in the public press lasting for several weeks. In many cases no mention is made of the name of the concern which is about to issue securities, but data is published from time to time regarding the industry represented. The data is interesting so that the reader's attention is held. In the meantime, a syndicate of bankers is formed to distribute the securities and, later, they are offered to the public by advertisement, by letter and by personal solicitation. Usually the best issues are sold in a few days or a few weeks. But they are never sold without the thoughtful study of many experts in the various security-selling organizations.

Securities are never sold in large blocks unless they can stand careful scrutiny as to: security of principal and interest, marketability, availability as collateral for loans, and competition with other issues in the market.

Before the Italian Government attempts to place the second series of the present \$100,000,000 issue, it should profit by past experience. Let us not delude ourselves. Let us face the facts *squarely*. We all want to help. What have we been trying to do in the past few years?

Those of us who know the American security markets will give our ardent support. We have the interests of Italy at heart. No one can impeach us on that score. There is no doubt that with an intelligently directed campaign even the American people will buy large blocks of any new issue of Italian Government bonds. And, from Italy's point of view, *they* are the people who should be asked to subscribe. We have the authority of such men as Mr. Lamont, Mr. Hemphill, Mr. Vanderlip.

The Spirit of Italy beckons to us, Americans and Italians, to support her program of industrial and social reconstruction. We cannot deny her! We will respond to the call as one man!

New York, May 1st, 1920.

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